General Council for Islamic Banks And Financial Institutions
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CIBAFI

المجلس العام للبنوك والمؤسسات المالية الإسلامية
مؤسسة منتمية لمنظمة التعاون الإسلامي
تأسست بمرسوم ملكي رقم ٢٣ لسنة ٢٠٠١م

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12th April 2018

Dietrich Domanski
Secretary General
Financial Stability Board
Bank for International Settlements
Cenatralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr Domanski,

Correspondent Banking

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Financial Stability Board (FSB), and greatly appreciates the work that the FSB and other global bodies are doing to address issues in correspondent banking.

CIBAFI is an international body representing Islamic financial institutions globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry, and has a membership of over 120 banks and non-bank financial institutions, both large and small, from 33 countries and jurisdictions.

Correspondent banking is an issue of particular importance to our members, few of whom have a global reach and most of whom are in emerging or developing markets. They are therefore very dependent on relationships with other banks to be able to provide basic international services to their customers. Because of the countries in which they are based, some have suffered particularly from de-risking by international banks.

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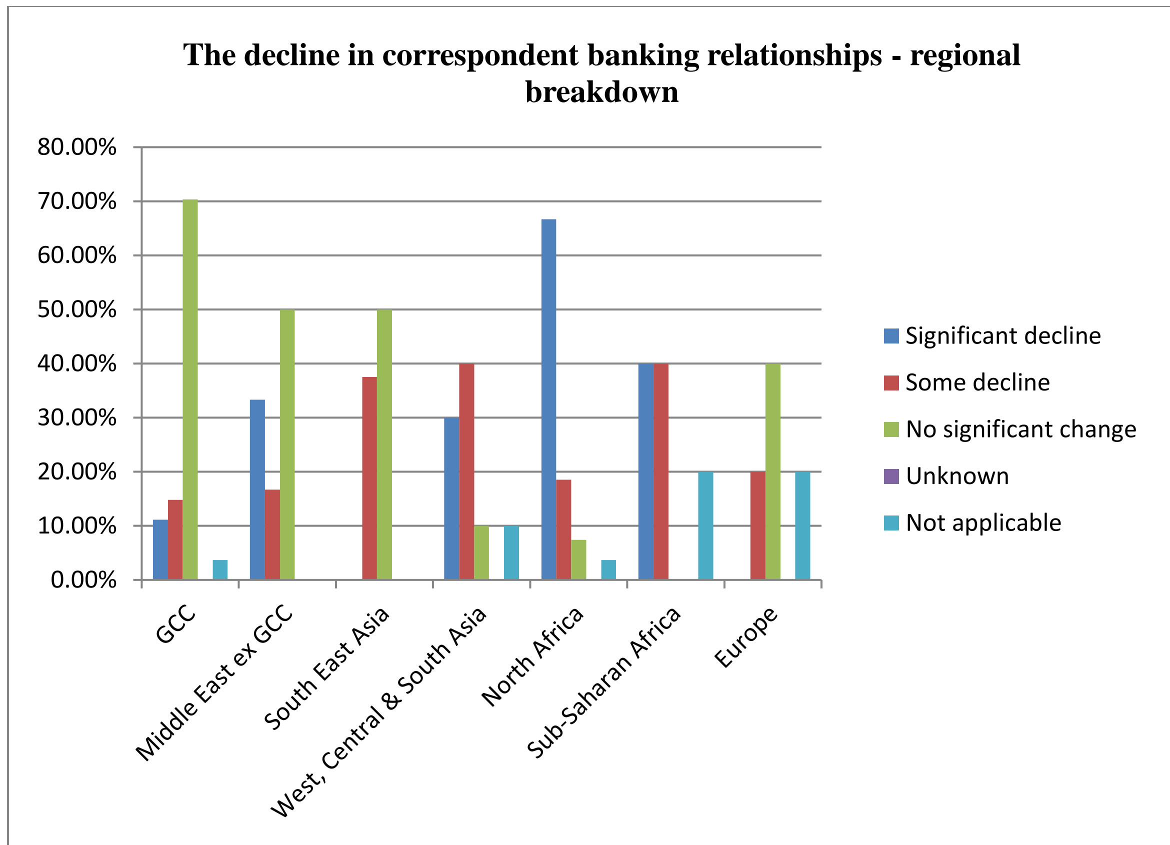
CIBAFI conducts a regular Global Islamic Bankers Survey (GIBS). The latest version, which is about to be published, was conducted in late 2017 and early 2018, and attracted 103 responses, from institutions in 31 countries. It therefore gives a good view of opinion across the Islamic banking industry, and on this occasion gives some information that may be helpful to your work.

Part of the survey is a "risk dashboard", in which we ask banks to rate the importance to them of a number of specific risks. In this edition, for the first time, we included among them "de-risking risk", i.e. the risk posed by the closure of correspondent banking relationships. Overall, this scored fifth of the 20 risks listed and, when we analysed the responses by region, it scored equal first in two regions (West, Central and South Asia, and Middle East ex-GCC), and second in North Africa.

We also posed supplementary questions to investigate this area in more detail. Islamic banks were asked to what extent the bank had experienced a decline in correspondent banking relationships as a result of 'de-risking' over the last five years. Almost one third of the respondents (32%) said that they had witnessed a significant decline, while a further 22% indicated that they had experienced some decline. A further third (36%) said that they had experienced 'no significant change.'

These global figures conceal some interesting regional variations. 70% of Islamic banks in the GCC indicated that they had experienced no significant change with the balance split between significant decline and some decline. These figures, and some of the comments offered by respondents, tend to reinforce the image of GCC banks as being the ones who are severing correspondent relationships, with other regions taking a more passive role in the process. On the other hand, fully 70% of Islamic banks in West, Central and South Asia and 80% of banks in Sub-Saharan Africa indicated that they had seen either significant or some decline, while in North Africa over 66% of banks indicated that they had seen significant decline. A fuller picture of the responses by region is given in the chart below. Some of the regional samples are relatively small, however, so data on this basis need to be treated with some caution.



The survey went on to seek further details about how de-risking had affected the business face of the bank. It asked to what extent a given set of products and services had been affected within the institution as a result of the closing of correspondent banking relationships. A score of 1 indicated no effect at all' while a score of 5 indicated that the area of business had been 'significantly affected.'

The chart below shows the average scores on a global basis. Scores at this level suggest that the effect of de-risking last year, while material, was sufficiently gentle for the banks to be able to cope with the strain and prepare to take remedial steps in subsequent years.

The picture on a region-by-region basis was in line with what we expected, given the responses to the preceding question.

Islamic banks in the GCC identified the business line most affected as being structured finance/foreign investments, but with a score of only 2.30. Indeed, these banks seemed to be only moderately affected by de-risking with scores across all business lines that ranged from 1.85 (cheque clearing) up to 2.30. The situation for banks in the Middle East ex-GCC was only a little more pronounced.

South East Asia's Islamic banks suggested that cash management services were the most affected by de-risking (at 3.14) and investment services the least affected (at 2.57). West, Central and South Asian banks indicated that international wire transfers were hit the hardest (at 3.40) followed by trade finance/letters of credit/documentary collections (at 3.10). One bank from this region commented, "Foreign telegraphic transfers (FTT) are the main affected area and due to de-risking, the bank has lost some major portion of its deposits because the bank was not able to entertain the requests for FTTs."

The picture changes quite dramatically when we look at North Africa, however. Five of the business lines of the Islamic banks operating there have been significantly affected by de-risking, including trade finance/letters of credit/documentary collections at 4.12, structured finance/foreign investments at 4.00, foreign exchange services at 3.96, cash management services at 3.96 and international wire transfers at 3.88. This is very much in line with the 66% of banks in North Africa that indicated that they had seen a 'significant decline' in business due to de-risking.

Banks in Sub-Saharan Africa had seen no such declines in their business. Their most affected business line was trade finance/letters of credit/documentary collections, but with a score of only 3.00. This seems to run contrary to the fact that of 80% of banks in Sub-Saharan Africa indicated that they had seen either significant or some decline in their business due to de-risking, but the data do not allow us to resolve this discrepancy.

Islamic banks in Europe were the most relaxed of all regions in terms of the effects of de-risking on the businesses. These banks gave a straight score of 2.00 for all business lines except trade finance/letters of credit/documentary collections, which nudged up to 2.20.

These data overall perhaps suggest that the practical impact of de-risking has to date been felt across a relatively few banks and geographies, but it has been sufficient to raise concerns for the future more widely.

We should be happy to give you more detail of the survey results and comments, and indeed to co-operate in any future work in which our participation might be helpful. We do see this as an issue which could impact severely on some of our members, and therefore very much welcome the initiatives you and your colleagues are taking to address it.

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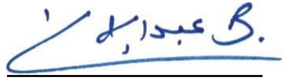
The General Council for Islamic Banks and Financial Institutions avails this opportunity to renew to the Financial Stability Board (FSB) the assurance of its highest respect and consideration.

With highest regards and best wishes.

Yours sincerely,



Abdelilah Belatik
Secretary General

CC to:

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Head of Secretariat
Committee for Payments and Market Infrastructures,

William Coen
Secretary General
Basel Committee on Banking Supervision

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